

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 EB-07 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

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FM AMCONSUL ZANZIBAR

TO SECSTATE WASHDC 1292

INFO AMEMBASSY LONDON

AMEMBASSY NAIROBI

AMEMBASSY MAPUTO

AMEMBASSY DAR ES SALAAM

C O N F I D E N T I A L ZANZIBAR 0144

E.O. 11652: GDS

TAGS: PGOV, ECON, TZ

SUBJECT: ZANZIBAR, MAINLAND MERGER OF FOREIGN RESERVE ACCOUNTS
REPORTED

1. THE JUNE 12 EDITION OF THE GOVERNMENT NEWSPAPER "THE SUNDAY NEWS" PUBLISHED IN DAR ES SALAAM QUOTES FIRST VICE PRESIDENT ABOUD JUMBE IN LONDON AS SAYING THAT ZANZIBAR AND THE MAINLAND NOW HAVE A COMMON FOREIGN RESERVE ACCOUNT. IN AN ARTICLE TITLED "CCM IS SERIOUS ABOUT REVOLUTION" JUMBE'S REMARKS IN AN IMPROMPTU ADDRESS JUNE 10 TO TANZANIANS IN LONDON ARE QUOTED AS FOLLOWS: BEGIN QUOTE. HE SAID SINCE THE CREATION OF CCM THERE HAVE BEEN A CONTINUAL STREAMLINING OF THE UNION AFFAIRS AND CITED THE EXAMPLE OF A COMMON FOREIGN RESERVE ACCOUNT, WHICH UNTIL VERY RECENTLY WAS HELD IN SEPARATE ACCOUNTS FOR THE TWO PARTS OF THE UNION. "THIS IS OBVIOUSLY A VERY USEFUL MEASURE, WHICH WAS LONG OVERDUE, AND SHOULD GO A LONG WAY TOWARDS THE PURSUIT OF A COMMON ECONOMIC POLICY," HE EMPHASIZED. END QUOTE.

2. ACCORDING TO ALI KARUME, ZANZIBAR'S JUNIOR MINISTER OF
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EXTERNAL TRADE, THE MERGER OF FOREIGN RESERVES IS MORE COSMETIC THAN REAL AND WILL AMOUNT TO LITTLE MORE THAN SHIFTING THE ZANZIBAR RESERVES FROM THE PEOPLE'S BANK OF ZANZIBAR TO THE MAINLAND'S NATIONAL BANK OF COMMERCE. ZANZIBAR WILL STILL HAVE CONTROL OF THE RESERVES BUT THE UNITED REPUBLIC OF TANZANIA WILL NOW HAVE ON ITS BOOKS A SIGNIFICANT BOOST IN FOREIGN CURRENCY HOLDINGS WHICH WILL PERHAPS ENABLE IT TO IMPROVE ITS CREDIT

RATING FOR LOAN PURPOSES. KARUME SAID THAT DETAILS OF THE ARRANGEMENT HAVE YET TO BE WORKED OUT, THAT AT THE PRESENT TIME THE RESERVES, WHICH ARE DEPOSITED IN LONDON AND NEW YORK, ARE STILL UNDER THE MANAGEMENT OF THE PEOPLE'S BANK.

3. IN THEORY EXTERNAL TRADE HAS ALWAYS BEEN A UNION MATTER TO BE JOINTLY PURSUED BY BOTH THE MAINLAND AND ZANZIBAR AND THIS IS REFLECTED IN BOTH THE INTERIM CONSTITUTION AND THE PERMANENT CONSTITUTION WHICH WAS RECENTLY ADOPTED. THE REALITY HAS BEEN THAT THE ISLES HAVE IN THE PAST ALWAYS CONDUCTED THEIR EXTERNAL TRADE INDEPENDENTLY OF THE MAINLAND'S. THIS WAS MADE POSSIBLE BY ZANZIBAR'S CONTROL OF ITS FOREIGN RESERVES, WHICH ARE DERIVED PRIMARILY BY THE SALE OF CLOVES. ZANZIBAR'S FOREIGN RESERVES, CURRENTLY ESTIMATED AT BETWEEN 60 AND 65 MILLION DOLLARS, HAVE MADE THE ISLANDS' RELATIVELY WELL OFF COMPARED TO THE MAINLAND'S CHRONIC ANNUAL HARD CURRENCY DEFICITS.

4. COMMENT. ZANZIBARIS HAVE ALWAYS SUSPECTED AND FEARED THAT THE MAINLAND'S MAIN INTEREST IN A CLOSER UNION WAS TO GET CONTROL OF THESE FOREIGN RESERVES. YET THIS, THE FIRST STEP IN THAT DIRECTION, WILL PROBABLY MEET WITH ONLY TOKEN OPPOSITION IN ZANZIBAR SINCE JUMBE HAS NEUTRALIZED THE MOST VOCAL OPPONENTS OF A CLOSER UNION BY HAVING THEM PLACED IN MAINLAND POSITIONS FROM WHICH OPPOSITION IS AWKWARD. THE MOVE IS IMPORTANT INsofar AS IT SHOWS THAT JUMBE IS SERIOUS ABOUT STEADILY ERODING ZANZIBAR'S AUTONOMY FOR THE SAKE OF A CLOSER UNION OVER WHICH HE MAY ONE DAY PRESIDE.
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